

GOOD MOVES

"MY BOSS SHOULD HAVE BEEN HERE"

After each workshop sponsored by the Alberta Physical Distribution Program, participants are asked to evaluate the day's session and to make comments. The most frequent comment from participants has been "my boss should have been here."

Physical Distribution Management is a technical tool that allows transportation, inventory, customer service, and warehousing costs to be traded off against each other to determine the lowest possible overall cost for a firm's operations. Neither the transportation manager nor the inventory manager can take on this responsibility alone — they need support from the firm's quarterback.

Hence the comment, "My boss should have been here."

The APDP program has been in existence since 1984. The program is divided into three stages. First, a general physical distribution overview seminar is held, describing how physical distribution management works and the potential savings available to firms using it. This is followed by a one-day workshop, usually offered in cooperation with the local Chamber of Commerce, on a specific physical distribution function. The real meat of physical distribution management is now explained, and the interest of the participants is heightened as they learn more about how to reduce their overall distribution costs.

At this point, we have to say good-bye to some participants: those who represent large international firms and those whose head offices are not in our province. Of

course, they are always welcome to contact the program for any additional assistance, and we have helped out in the past.

To the rest, depending on certain criteria and upon their application for assistance, we can offer a two- or three-day

Marine containers representing import/export traffic are processed by toplifters at CP Rail's Intermodal Terminal in Edmonton.



physical distribution management study completed by a highly specialized independent consulting firm.

Accompanying the consultant on most studies will be the Director of the program, and together they will investigate your firm's physical distribution system and arrive at recommendations to reduce your distribution costs and increase your profitability. This will be done in the form of a written report presented to the firm's management, so its implementation can be coordinated with the company strategy.

The final stage of the program has generated tremendous results. The 26 industry studies completed to date have identified \$6.8 million in potential physical distribution savings. Remember that these studies were done for Alberta's smaller firms and not for industrial giants.

So the next time an Alberta Physical Program notice crosses your desk, send the right person for the job.

WINTER 1990
MATERIALS
IN MOTION



WHAT'S NEW?

How important is physical distribution? To take an example, distribution costs Sears about \$ 2 billion (U.S.) a year, or eight per cent of its gross revenue.

Time Air Inc. of Lethbridge reports profits of \$1.13 million in the second quarter of 1989, compared to \$ 750,000 for the same period in 1988.

Have you heard the old joke, " How much does it cost to mail a letter ?" Answer: 39 cents as of January 1990: three cents for transportation and 36 for warehousing. NO MORE! John Caines, Manager of National Media Relations, says Canada Post is modernizing and that it's leading the charge among couriers. Canada Post offers first-class mail with overnight, second, or third-day delivery, FAX service, and overseas vessel parcel delivery. All at different prices, and with another difference — guaranteed delivery.

Dupont Canada Inc. has received approval to build a \$120 million hydrogen peroxide plant. Completion is scheduled for 1991. The plant will employ 60 and will be located in Gibbons.

THE PROFIT PICTURE

Case Study

Have you ever tried to sell higher inventory turnover to your boss and gotten the usual response, " Good idea! We'll look at it when things slow down"? You know that things never seem to slow down at your place—so down the tube the savings go.

One Alberta inventory manager recently found his firm with \$600,000 in inventory. He found that if he invested in a better information system, he could achieve eight turns a year, rather than the four his firm was getting.

Using a conservative inventory carrying cost of 30 per cent, it cost his firm \$180,000 a year to carry the \$600,000 worth of inventory. With the proposed new system, the inventory could be cut in half and the carrying cost reduced to \$90,000. Less the \$40,000 for the new system, this meant a potential saving of \$50,000. "Big deal," said his boss, who had been in sales all his life, when he was told the firm could save \$50,000 by spending \$40,000.

Let's explain it another way. Say the controller tells you that the margin on your firm's sales is 26 per cent. This is your firm's markup over what the product costs. Your company has to pay all expenses out of this, including your salary, and still make a profit.

Say your firm has sales of \$4,800,000 a year, which gives a gross profit of \$1,248,000. The controller is starting to see where you're going, and tells you that expenses total around 23 per cent, or \$1,104,000 a year.

So you sharpen your pencil and figure out the firm's profit to be \$144,000, and use another method to explain the savings.

"OK boss, we can save \$50,000 a year if you use my new information system to increase turnover and reduce inventory. Our sales this year will be \$4.8 million, but we only clear three per cent. That means we'll make \$144,000 in profit. Right?"

"My saving of \$50,000, based on a three per cent profit margin, is worth \$1,666,000 in sales. That makes me the second top salesman, and I qualify for the trip for two to Hawaii. More importantly, we increase our annual profit by 35 per cent."

"But you're only in distribution — I've always expected "savings" from you, not sales. Can you really do that?"

"If I work on reducing the level of inventory we carry without reducing the level of customer service, next year we can do even better."

Physical Distribution *can* make your firm more profitable.



CONSULTANT'S CORNER

Trading Houses: A Growing Connection to Export Markets

It is a common perception in Canada that a "trading house" is necessarily either a huge Japanese general trading company or a basement operation working on commission.

While both of these forms of trading house exist in Canada, most Canadians are largely unaware of the many capable and experienced companies between these two extremes. Before we discuss these companies and the role they can play in a supplier's export strategy, a word about what trading houses are, and what the Canadian experience of them has been to date.

An industry/government Trading House Task Force in 1985 defined trading houses as:

Companies specializing in the exporting, importing, and third-country trading of goods and services produced or provided by other parties, and which provide services related to these activities.

These companies may act as merchants, agents, brokers, export managers, buying houses, or procurement agents, or as a combination of the above.

In other words, a trading house can be almost any form of international sales, marketing, or sourcing organization. Under this definition, we find that many companies operate as trading houses, but may not be identified or recognized as such.

It is estimated that some 400 to 500 trading companies of various sizes and functions operate in Canada. We can group them into five general categories according to size, function, products handled, and type of operation:

1. Corporate, cooperative, or single-commodity trading houses, which may act independently or as the trading arm of affiliated producers or cooperative members.

These are commonly found in the grain, mining and minerals, pulp and paper, lumber, fish, livestock, and agri-food areas.

2. Domestic distributors and mass-merchandisers: in recent years, many companies have created international distributing functions to capitalize on their existing product and financial strengths. Most are in the industrial supply area (plumbing, electrical, and building hardware).

3. Agri-food traders: these companies range in size from \$5 million to \$50 million and are active in trading a variety of food products.

4. Product- and/or market-oriented trading houses: small, independent companies, with sales of \$1 million to \$25 million, active primarily in end-products and fabricated materials.

5. World-scale trading houses of Japanese, Korean, or European origin exporting primarily raw materials and raw commodities, and importing fabricated and end-products.

The Task Force found that in 1983, trading houses accounted for some 40 per cent of Canada's non-U.S. exports. This is a good indicator that their strength is in their knowledge of off-shore markets.

Small and medium-sized trading houses accounted for 80 per cent of the sector's population and 20 per cent of the volume. It is not surprising that the sampling of the exports of Canadian trading houses mirrors total Canadian exports by sector.

This tells us that trading houses cannot perform miracles with uncompetitive products. They are only as good as the suppliers standing behind them. What they do excel at is selling to non-U.S. markets. For small to medium-sized trading houses active in end-products, this means markets in Europe, the Caribbean, Central America, the Pacific Rim, and the Middle East.

WHAT'S NEW?

The name "Greyhound" is one of the 10 most recognized trademarks in the world, says Ronald Martin, Director of Courier Services Advertising in Calgary. Martin announced that Greyhound Lines of Canada Ltd. is moving to expand its express and package capacity and become a major force in the less-than-truckload freight business in the western region.

The U.S. Federal Aviation Administration has accused a Texas company of improperly shipping hazardous materials on a passenger jet and is seeking \$240,000 in penalties. According to the FAA, the Texas firm violated rules on both air-freight labels and packaging of hazardous chemicals. The passengers and crew smelled fumes and noticed that the floor was hot upon landing. Once on the ground, the pilot ordered an emergency evacuation. Several passengers and crew members suffered minor injuries from the impact and from breathing irritating and corrosive fumes. Damage to the aircraft was estimated at \$288,000. Like the guy used to say on Hill Street Blues, "Let's be careful out there."

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EDMONTON RURAL REGION

Business Counsellor
6th Floor, 9940 - 106 Street
Edmonton, Alberta T5K 2P6
Tel: (403) 427-5267

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Business Counsellor
6th Floor, 9940 - 106 Street
Edmonton, Alberta T5K 2P6
Tel: (403) 427-5267

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1401 Provincial Building
10320 - 99 Street
Grande Prairie, Alberta T8V 6J4
Tel: (403) 538-5230

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Third Floor, Provincial Building
4920 - 51 Street
Red Deer, Alberta T4N 6K8
Tel: (403) 340 - 5300

MEDICINE HAT REGION

Business Counsellor
217 Provincial Building
770 - 6 Street S.W.
Medicine Hat, Alberta T1A 4J6
Tel: (403) 529-3630

ST. PAUL REGION

Business Counsellor
Box 1688, Provincial Building
5025 - 49 Avenue, St. Paul,
Alberta, T0A 3A0
Tel: (403) 645-6358

EDSON REGION

Business Counsellor
Bag 9000,
204 Provincial Building
111 - 54 Street, Edson, Alberta
T7E 1T2
Tel: (403) 723 - 8229

CAMROSE REGION

Business Counsellor
5005 - 49 Street
Camrose, Alberta T4V 1N5
Tel: (403) 679-1235

CALGARY REGION

Business Counsellor
5th Floor, 999 - 8 Street S.W.
Calgary, Alberta T2R 1J5
Tel: (403) 297 - 6284

PEACE RIVER REGION

Business Counsellor
Bag 900, Box 3
10122 - 100 Street,
Riverdrive Mall
Peace River, Alberta T8S 1T4
Tel: (403) 624 - 6113

LETHBRIDGE REGION

Business Counsellor
416 Stafford Drive South
Bag 3014
Lethbridge, Alberta T1J 4C7
Tel: (403) 381-5414

Alberta

ECONOMIC DEVELOPMENT
AND TRADE
Hon. Peter Elzinga, Minister

Transportation Services Branch
9th Floor, Sterling Place
9940 - 106 Street
Edmonton, Alberta
Canada T5K 2P6
Telephone: (403) 427-0743

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CALENDAR OF EVENTS

WINTER '90

Alberta Physical Distribution Program

MAY 16

Calgary

Customer Service Workshop

MAY 23

Edmonton

Customer Service Workshop